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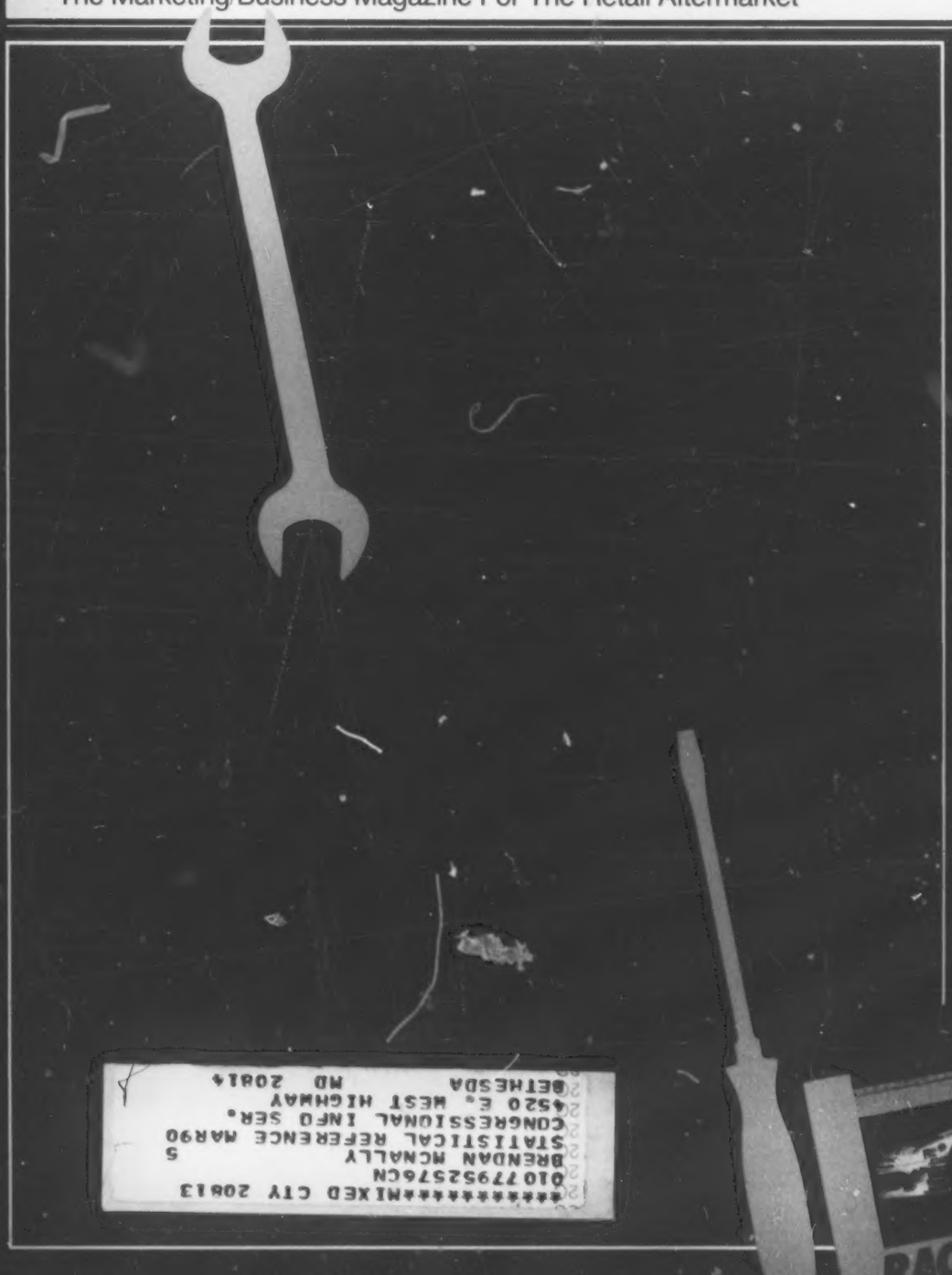
AUTOMOTIVE MARKETING

The Marketing/Business Magazine For The Retail Aftermarket

APRIL 1989



The business of selling hard parts to DIYers is changing. If retailers want to continue to sell hard parts to DIYers, they have to respond to the changes. Here is how they are doing it.

Want to know how much other retailers are paying their store managers? We can tell you!

Chilton's
AUTOMOTIVE MARKETING

a Chilton publication

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PUBLISHER'S NOTES

CHECKING PAY LEVELS

How much do retail parts store managers and their assistants get paid?

We asked our colleagues at Touche Ross to work on a compensation survey with us. You'll find the results in this issue. We bet our paychecks that you'll check your company's pay plans against this report.

You'll probably also check out Contributing Editor Edward L. Kaufman's insightful piece on hard parts sales, and the answers we received to some questions we asked you, our *Automotive Marketing* readers, about the future of hard parts sales in your stores.

There's little doubt about one future. Corporate support of auto racing, both at the supplier and retail levels, is undoubtedly on a roll. Read our Racing Profile section for details about how suppliers and retailers spend their money and energy, and win store traffic and parts sales!

The computer people bring many buzzwords to our marketplace. EDI, or Electronic Data Interchange, is among them. Research Editor P.R.N. Katcher looks at EDI and how it can work for our industry in this issue's segment of our Retail Operations series.

Then there's Detailing The Market and Market Line for industry headlines and news analysis—lots of information for you. We hope you enjoy it. Let us hear from you! ■

Sarah J. Frankson
Group Publisher

DETAILING THE MARKET

IN-STORE FOCUS

CARPORT DISCOUNT AUTO PARTS (THE CARPORT)
Headquarters: 3925 Rice Mine Rd., N.E., Northport, AL 35476 (205) 345-2400
Stores: 28
Total Corp. Sales: $15,000,000 (est.)
Average SKUs: 11,000
Founded: 1983

"What all of us in the retail business are trying to do is satisfy customers. Customer satisfaction is a direct result of employee satisfaction." This is the philosophy behind the success of The Carport, a thriving Alabama chain, according to Harco vice president of diversified operations David Fuhrman.

The Carport was created in 1983, when its parent company, Harco Drug, wanted to diversify into the automotive aftermarket. Harco purchased two jobber/retailers in Tuscaloosa, AL, and rapidly expanded to a 28-store chain.

According to Fuhrman, the secret to the retailer's success lies behind the scenes.

"Employee turnover is especially a challenge for a growing organization," he explained. "If you can maintain good people, that gives you a pool to staff your stores. You need to create an environment for your associates to do their job. You've got to develop a team atmosphere from within."

The automotive parts business operates as part of Harco. Carport's president is Harco Drug president Jim Harrison, Jr. Fuhrman, next in the chain of command, carried a corporate Harco title, but spends about 70% of his time in the Carport division. Answering to Fuhrman are three Carport "key players"—a director of purchasing, a director of merchandising, and a parts buyer.

"The Carpot key executives wear many different hats that don't sound like their job titles. They function as buying executives, merchandising executives, operations, and personel executives. They do it all. They work as a team. It's hard to blame one department when you are all in it together," Fuhrman said.

Faced with very strong competition from such businesses as AutoZone, Western Auto, and Wal-Mart, The Carport has carefully structured its team-player atmosphere by allowing its store managers a degree of autonomy unusual in today's automotive parts chains.

Store managers share ordering decisions with the parent company. "Only about 75% of our SKUs are purchased by our central distribution system," Fuhrman said.

"The rest can be ordered independently by the store managers. They have authorization to make purchases on their own through authorized suppliers."

The reason, Fuhrman said, is "It's very difficult for a buyer in the central office to know what's needed in every town." That's especially true in Alabama, which sees climatic variations from balmy to snowy, and runs the gamut from very rural to very urban.

Nevertheless, The Carport carries similar products in all of its locations. "We are very parts oriented," Fuhrman said. "We carry complete lines in all categories. We're very heavy in rebuilts, ignition, and brake parts. Well over half of our business is parts. Profits from our parts lines amount to 55-60% of our total business."

The outlets also are strong in oil and chemicals. There's a resurgence of popularity in the market area for dress-up accessories and performance parts, particularly carburetors, manifolds and cams. This comes mostly from younger buyers. Pick-up truck accessories are very popular, too.

The chain doesn't carry many wheels, stocks no tires, but does have a full battery program.

Unlike other chains, The Carport is not completely retail. "We are a little more oriented toward the guy who has his own shop," Fuhrman said. This type of "light industrial account" makes up 15-20% of the business, Fuhrman added.

The stores average 5,500 sq. ft. in size, and there are no service bays. There's a strong emphasis on store appearance, according to Fuhrman. The interior graphics are red, yellow, and orange. "We think it's very important that a customer find a clean store to shop in," he said. "This helps differentiate us from the competition."

Most Carport stores have parts counters in the front, either to the right or the left of the door. Gondolas run at right angles to the parts counter. Oils and filters are farthest from the door, to draw traffic through.

The chain advertises heavily. Direct mail and newspaper ads are the preferred advertising outlets, with a major circular just about every other week. Carport uses some TV and radio, too. Specific promotions feature price and product, but the rest of the ads focus on the chain's image—"clean stores with competitive prices, staffed by competent, caring people," according to Fuhrman.

The future of The Carport looks bright, despite its serious competition, Fuhrman said. "As a privately held company, we're never going to be the biggest," he said. "Consequently, our goal is to be the best in the country. With that in mind, we feel we can grow 20-25% a year, within manageable levels. We don't intend to limit ourselves to Alabama, but there are substantial opportunities in this state. When we find a top-notch locations in our market area, we're not going to pass them up. If you pass up the best location in town and someone else chooses it, the choice may not come again in your business lifetime."

DETAIL

73%

of specialty equipment purchasers spent more than $1,000 on appearance or performance equipment annually, according to the 1989 Specialty Equipment Market Association (SEMA) Market Study.

PROFILE: WAX & POLISH

Drawing from the 1989 *Automotive Marketing Consumer Automotive Repair Study*, we look at DIYers who purchased and installed wax and polish during the previous 12 months.

			Age					Income				Hours Per Month Spent On DIY			
Total	Male	Female	-25	25-34	35-44	45-54	55 +	-$20K	$20-30K	$30-40K	+ 40K	-1 Hrs	1-5 Hrs	6-10 Hrs	11 + Hrs
100.0%	70.6%	29.4%	15.1%	31.0%	25.5%	11.6%	16.5%	23.3%	24.9%	17.5%	29.8%	10.2%	63.8%	16.3%	9.5%

MARKET LINE

TOP SELLERS

TOP TEN MODELS IN 1988

Once again, the two best selling vehicles in the U.S. were pick-up trucks, and both increased sales in 1988. For the fifth year in a row, light trucks set a sales record with 5,197,000 units sold. Also this year, Ford and Chevrolet had nine of the top ten best selling models.

Rank	Model	Unit Sales
1	Ford Pick-Up	584,169
2	Chevrolet Pick-Up	545,637
3	Ford Escort	387,815
4	Chevrolet Corsica/Beretta	380,301
5	Ford Taurus	374,627
6	Honda Accord	362,663
7	Chevrolet Cavalier	306,267
8	Ford Ranger Pick-Up	298,579
9	Ford Tempo	285,141
10	Chevrolet Celebrity	252,981

Source: Allomatic Industries

CAR SOUND

Tandy Tests Auto Electronics Installation Centers

Retailers who install car sound may soon see a new competitor.

Tandy Corp., Ft. Worth, TX, which also owns about 7,000 Radio Shack stores, is testing Tandy Automotive Electronics Installation Centers in Boston (a freestanding store) and in a Fort Lauderdale, FL, area car care mall.

The test program began with a a third center in Ft. Worth which closed in December after a year. That operation was also a freestanding store and Al Klindt, senior director, Tandy Consumer Services, said, "Freestanding stores are not as good."

The centers have two bays which can hold four cars. The centers install stereos, phones, alarms, radar detectors, tapedecks, and virtually any other electronic accessory Radio Shack stores sell. However, there is no sales area at the centers so they do not compete with Radio Shack stores. Customers must bring in accessories to be installed.

"Over the years we'd had a huge market for DIYers; but we've always had a concern for those who didn't DIY," Klindt said. "The impetus for the centers was that there was a high scale market out there that doesn't want to install cellular phones, but they do want to buy them from Radio Shack."

Klindt said the test should be complete by the end of Summer when Tandy will decide whether to roll out more auto centers. "It's hard to say how many, but at least in major markets," Klindt said. He added that he's been deluged with calls from the operators of auto malls across the country. ■

Hi/Lo Chain Has 8.5% Sales Gain In 1988

Michael Young, president and CEO at Hi/Lo Auto Supply, Houston, wrote to us about our February roundup of the Megachains (Market Line, page 19). Young said he is not the owner of Hi/Lo. Hi/Lo was purchased by Saratoga Partners, Ltd., an investment partnership managed by Dillon Read & Co., New York, in 1987. Former shareholders and management also share in-ownership. Young also had this to say about Hi/Lo.

We do not suffer from the Texas oil slump. Hi/Lo has never suffered a decrease in sales in its 30-year history. Sales for our 72 stores in 1988 (all of which are in Texas and Louisiana) were $92 million, which was up 8.5% over the prior year on a comparable store basis. We have recently opened two new stores and will be opening four additional stores in the next three months. We won't make your 100-store level (*AM's* benchmark for a megachain is 100 stores in operation) in 1989, but I'm sure we will reach that total in the near future. ■

ADAP Officers

Wayne Yodzio, senior vice president of merchandising and purchasing at ADAP, Avon, MA, wrote following our February roundup story on the Megachains in 1988 (Market Line, page 19) to say that the correct listing as current heads of ADAP should be: John Foster, senior vice president of administration and Yodzio, senior vice president of merchandising and purchasing. Yodzio has been in his position since March 1988. ■

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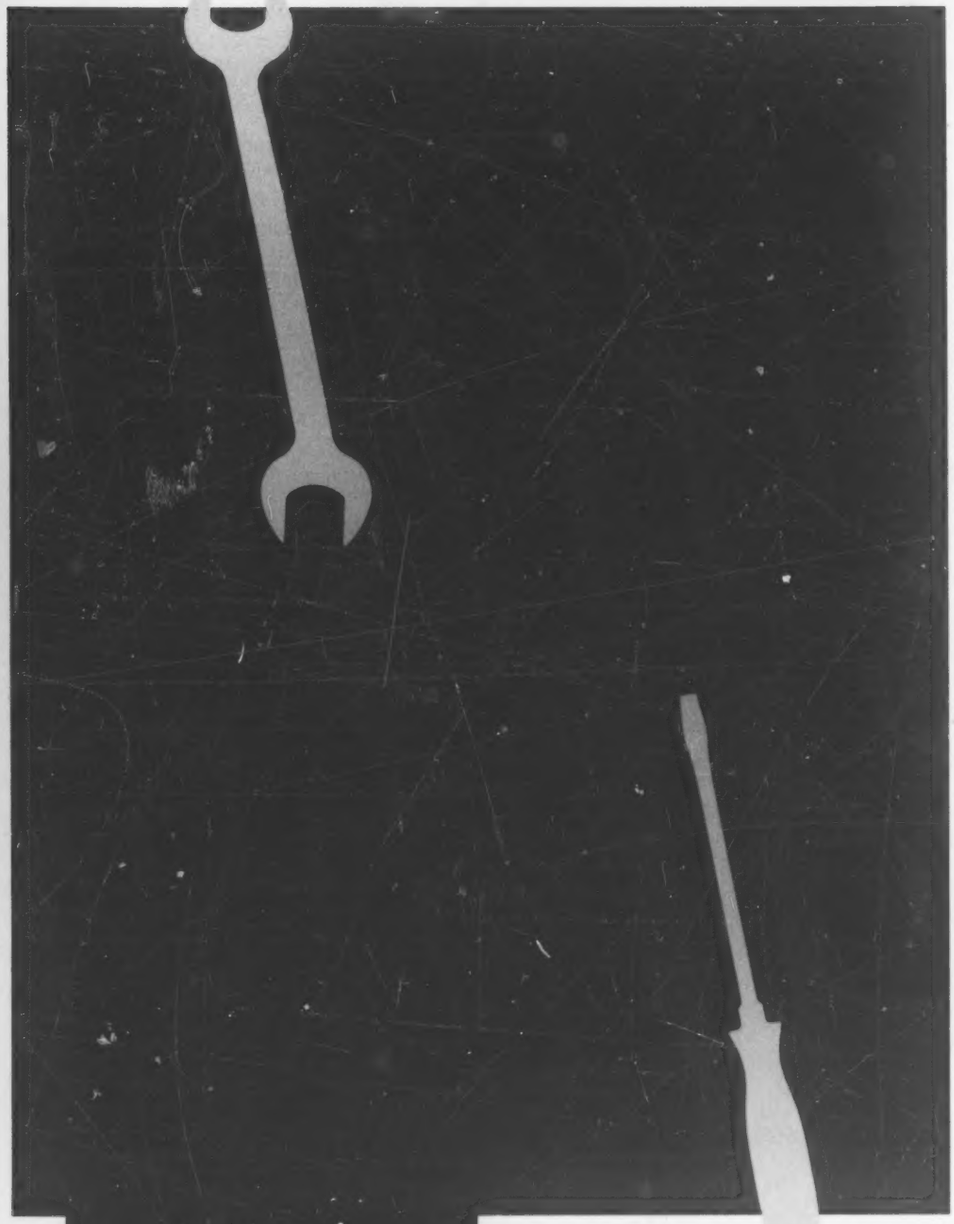
(Circle 19 on Product Information Card)



RETAILERS MEET THE CHALLENGE OF A CHANGING BUSINESS

Aftermarket retailers face many challenges when it comes to selling hard parts. Here's a look at how they are meeting them.

by **Edward L. Kaufman,**
Contributing Editor

Hard parts are big business. In 1989, sales of replacement parts by volume retailers will reach about $9 billion.

And the consumers who buy those parts appear to want more in the way of convenience and *service*. If they continue to be parts DIYers, they will expect more from retailers in terms of parts availability—both for domestics and imports—and sales people who can answer questions about parts.

Although the aftermarket chain stores are strong in sales of carded and blister-packed parts like spark plugs, ignition parts, wire and filters and various bolt-on items such as water and fuel pumps, exhaust, and brakes, the story is different for volume retailers. They've never have had much of a role in selling internal engine parts and drive line parts (what some people consider the *real stuff*), and now they are facing vigorous competition for fast-turn and bolt-on parts business from installation specialists.

Clearly, the parts business has changed, and it is time for retailers to respond to these changes if they want to continue to sell hard parts. There are hard questions for retailers to answer, question like these:

- Has the DIY trend peaked? And if so, what can retailers do about it when it comes to selling hard parts?
- What can retailers do about parts proliferation?
- How can retailers better source parts for imports?

The DIY Question

The volume aftermarket is not, and never was, the same as the "DIY market." Auto chain stores like The Pep Boys and Western Auto, general merchandisers like Sears, Wards, and K mart, to name just a few, have long operated ser-

HOW LARGE IS THE PARTS MARKET FOR RETAILERS?

Retail sales of replacement parts reached close to $30 billion dollars in 1984. For 1989, Lindsey-Kaufman Co.'s preliminary estimate of sales is $37 billion (in the range of $36-38 billion).

In 1984, traditional installers like car dealers, garages and gas stations and specialists like Midas, Jiffy Lube and Precision Tune accounted for 66% of retail parts sales—leaving 34% for volume retailers and jobber/retailers.

These three classes of stores had parts sales of $10.1 billion in 1984. The bulk of these sales (about $8.7-8.8 billion) were over-the-counter.

For 1989, Lindsey-Kaufman Co. estimates that volume retailers and jobber-retailers will have parts sales of about $12.5 billion (in the range of $11.9-12.9 billion). Over-the-counter sales (which are largely, but not exclusively with DIYers) will be in the range of $10.3-10.8 billion.

The 1984, over-the-counter sales of these retailers reached nearly 30% of total retail parts sales. For 1989, Lindsey-Kaufman Co. estimates that these over-the-counter sales will be in the range of 28-29% of the total.

vice bays in addition to dealing with do-it-yourselfers on a take-out basis. Still, there is no doubt that volume retailers get the *bulk* of their business on an over-the-counter basis. That being the case, anything which adversely affects DIY trade can severely affect overall sales and profits.

Has the DIY trend peaked? Is it time for DIY retailers to hedge their bets? And if it is time for bet-hedging, what can the stores do – pursue sales with professional installers? Start, or expand, service bay operations? Both?

There are wide differences of opinion on these questions. A number of the largest – and fastest – growing auto chain stores are (or seem) extremely confident that changes in technology will not mean the decline of the DIY market. They continue to believe that "high tech youth can handle high tech cars."

On the other hand, there is ample evidence to indicate that, on balance, the DIY trend *has* peaked and the *shape* of the DIY market has changed. For example, *Automotive Marketing's* 1989 *Consumer Automotive Repair Study (CARS)* indicated that there has been a sharp drop in the proportion of car owners who do their own tune-ups (from 51% in 1985 to 42% in 1989). The 1989 *CARS* also found that among today's DIYers, those who perform their own tune-ups are likely to be more *involved* in tune-ups – more likely to do a tune-up on a foreign car – more likely to do a tune-up *again* than were the tune-up DIYers of 1985.

So, we may have moved from a relatively wide, shallow DIY market to one which is narrower and deeper. Meaning, fewer-but-more-committed DIY customers – and customers who expect more in the way of service and availability.

Who Says DIY Has Peaked?

Those who believe that the DIY market

THE OUTLOOK FOR BOLT-ON PARTS 1989

Item by item, here is the outlook for various bolt-on parts.

Category/Item	1989 Retail Sales (Est. In Billions)	Trends By Channel
Cooling System	**$ 1.68–$ 1.78**	
Radiators		DIY gaining, rebuilders declining
Belts & Hoses		Traditional installers strong, DIY active
Water Pumps, Thermostats		Traditional installers strong
Fuel System	**$ 5.4–$ 3.2**	
Carbs/Carb Kits		Traditional installers active, DIY active, specialists gaining
Fuel Injection Parts		Car dealers strong, specialists gaining
Electrical System	**$ 3.1–$ 3.2**	
Ignition Parts		DIY active but faster growth for sophisticated installers
Wire & Cable		DIY active but faster growth for sophisticated installers
Alternators		DIY active but faster growth for sophisticated installers
Under Car Systems	**$ 7.5–$ 8.0**	
Brake Parts		DIY active, specialist gaining
Exhaust Parts		Specialists strong, traditional installers declining
Steering/Suspension Parts (Includes shocks/struts, CV-joints, rack & pinion parts		Faster growth for installers than for DIY-only stores
	TOTAL $14.–$15.2	

Source: The Lindsay-Kaufman Co.

RETAIL SALES OF REPLACEMENT PARTS*

Item by item, here is the sales outlook for various automotive replacement parts by channel.

Sales By Channel	1984 Sales (Est. In Billions)	1989 Sales (Est. In Billions)
Sales by traditional installers & service specialists	$19.5	$24.1–$25.1
Sales by volume retailers & jobber/retailers	$10.1	$11.9–$12.9
Auto chain stores		
Total	$ 4.2	$ 5.2–$ 5.3
Via service bays	$ 0.5	$ 0.6–$ 0.8
Mass merchandisers		
Total	$ 3.1	$ 3.7–$ 3.8
Via service bays	$ 0.7	$ 0.8–$ 0.9
Jobber/Retailers		
Total	$ 2.8	$ 3.4–$ 3.5
Via service bays	$ 0.2	$ 0.3–$ 0.4
TOTAL	**$29.6**	**$36.0–$38.0**

* All types of parts including fast turn items such as filters and spark plugs; bolt-on parts such as alternators, exhaust, and carb parts; and service parts such as internal engine parts and drive line parts.

Sources: 1984: Frost & Sullivan's 1985 study of the aftermarket. 1989: Lindsay-Kaufman Co. preliminary estimates.

TRENDS FOR PARTS

The replacement parts market can be divided into three major categories:

Merchandising Parts – fast turn parts like filters, spark plugs, wiper blades and automotive lamps.

Bolt-On Parts or quick change parts like belt & hose, alternators, carburetors & kits, muffler, rack & pinion parts.

Service Parts, e.g., internal engine parts, drive line parts.

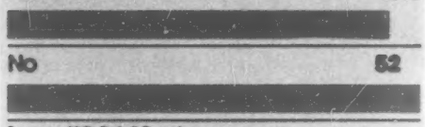
In 1989, retail sales of fast turn parts will be in the range of $4.7 billion to $4.8 billion. DIY-oriented chains are strong in this category because even "light" DIYers find it easy to change filters and plugs. But, easy or not, sales of these parts for installation specialists (quick lube and tune-up specialists) appear to be growing faster than DIY sales. Overall, sales of spark plugs have been declining for a few years because of such factors as lead-free gasoline and the shift to 4-cylinder engines.

On the other side of the parts market are the service parts – things like pistons, piston pins, engine valves, engine bearings and seals, automatic transmission parts, etc. Some DIYers can do anything, including tearing down and overhauling their engines. However, there are not enough of these "heavy" DIYers to represent a fast-moving market for conventional auto chain stores. So, this market is confined to traditional WDs and jobbers plus engine parts specialists.

In the middle, accounting for about 40% of the total parts market, is the big, diverse "bolt-on parts" category. This category is a battle ground for chain stores and the traditional outlets. In general, DIY-oriented chains remain active in these markets, but installation specialists of various types are gaining.

DIY TRENDS FOR COOLING SYSTEM PARTS

Do retailers believe that the DIY trend in cooling system part installation has peaked?



Source: AM's Retail Panel

RETAILERS & COOLING SYSTEM PARTS

We asked our Retail Panel members about the sales of cooling system parts. For the most part, the panel retailers were optimistic about cooling system parts. Most said their sales of parts for this important automotive system would go up, or at least stay the same. Here is what some of the Retail Panel members had to say.

Avis C. Cox of Cox Auto Supply Inc., Yankton, SD, said he expects cooling system parts sales to remain the same as last year. Noyes Turner, manager of Darling's Auto Parts, Brunswick, MA, said DIYers will do more cooling system parts repair and replacement themselves. Frank Johnson, Lacey Automotive Parts, Soledad, CA, agrees with him. Johnson said DIYers are doing more cooling system work, "taking better care of the system," because of the rising price of antifreeze/coolant. Jim Loyd, Midway Auto Supply, Dallas, TX, said his customers prefer to buy higher-ticket new water pumps rather than rebuilts for later model vehicles. Art Badgley, Art's Precision Automotive, Godfrey, IL summed it up best by saying cooling system parts sales will be "onward and upward."

has peaked include parts manufacturers (in nearly all product categories), WDs and jobbers, and *some* automotive chain stores.

For instance, Northern Automotive, one *very* DIY-oriented chain, became a de facto bet-hedger when it acquired a service-oriented chain, Crown. Western Auto pursues retail business over-the-counter and via service bays, but it too welcomes business from independent installers.

Some of the auto parts chains which remain very DIY-oriented prefer not to speak for publication. They include a few of the largest chains in the South and West – regions which have long been very strong for DIY. These retailers tend to believe that there will *always* be a segment of the vehicle-owning population which has both the need and desire to do their own maintenance and repair. Historically, they say, these vehicle owners have always learned what they needed to learn in order to do their own parts replacement.

One such executive said, "Every time there is a technological change we are told that *this time* the new design is so complex that even trained mechanics can't handle it, let alone do-it-yourselfers. They told us that about hydraulic brakes years ago. When disc brakes came in, we were told that DIYers could *never* repair them! Actually, they find it very easy to replace disc brake pads. More recently, they said that there would never be a DIY market for electronic ignition modules – but we are selling a lot of them, too. And now they are telling us that computerized fuel systems are much too complex for DIYers! The fact is, we have DIY customers for computerized feed back carbs, oxygen sensors, temperature sensors and other parts for fuel injection systems."

Parts manufacturers, on the other hand, tend to believe that in the market as a whole, the DIY market share has declined slightly. A senior vice president of one manufacturer said, "The DIY share of the market was about 30% a few years ago and is probably about 20%-to-30% today; not a great decline, but nevertheless a significant change in direction."

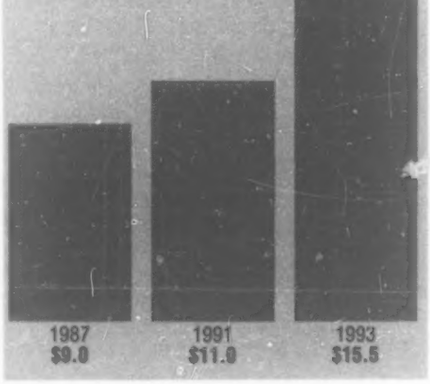
Tim Phillips, who just bought B & B Auto Parts, Renton, WA, believes that the DIY trend has, in fact, peaked – but not because of technological factors.

"It has more to do with changing *demographics*. Many of the baby-boomers – and I am one of them – have the ability to do their own repairs and *like* DIY tasks. But they lack the time! Because they have the money, they are taking their cars to specialists or garages."

Significantly, B & B is making some changes in its strategy. "We have been 75% retail and 25% wholesale. We are aiming at increases in both categories of business, but the emphasis is on raising the wholesale business to about 30-35% of total."

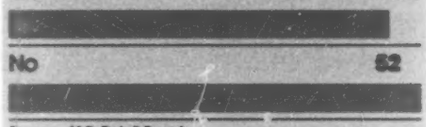
ESTIMATED RETAIL SALES

Here are the estimated and projected retail sales of replacement parts for import cars and light trucks for 1987, 1991, and 1993.



DIY TRENDS FOR EXHAUST SYSTEM PARTS

Do retailers believe that the DIY trend in exhaust system part installation has peaked?



Source: AM's Retail Panel

RETAILERS & EXHAUST SYSTEM PARTS

We asked our Retail Panel members about the sales of exhaust system parts parts. For the most part, the panel retailers were not very optimistic about DIY sales of these parts. Many said their DIY sales of parts for this system will go down as DIYers turn to exhaust specialists for installation. Here is what some of the Retail Panel members had to say.

Elmo Jones, Western Auto associate in Carmi, IL said "I think exhaust parts will decline because of the popularity of exhaust specialist centers." Norm Meinke, 2-M Auto Supply Inc., Lowell, AR, agreed. He said, "Exhaust specialists are selling most of these parts now."

There is a bright side, however. Gene Guttormsen, Gunnar's Auto, Longview, WA, said he could carry fewer SKUs of pipes in his store due to same day or next day delivery from WDs. And a few retailers see sales of exhaust parts increasing. For instance, Noyes Turner, Darling's Auto Parts, Brunswick, MA, and Ken Hollis, Western Auto associate, Sidney, OH, both said they felt DIYers will do more work on this system. And Art Badgley, Art's Precision Auto, Godfrey, IL, said, "With state vehicle inspection again, the sky's the limit in sales."

Some Chains Stand Pat

On the DIY question some chains are, in effect, standing pat, some are seeking more business with independent installers and some, those with service bays, are seeking more business on installing parts.

Champion Auto Stores, New Hope,

DIY TRENDS FOR FUEL INJECTION PARTS

Do retailers believe that the DIY trend in fuel injection system part installation has peaked?

Source: AWI Retail Panel

RETAILERS & FUEL INJECTION PARTS

We asked our Retail Panel members about the sales of fuel injection system parts. For the most part, the panel retailers were optimistic, believing that DIYers are just now starting to replace the parts in that system themselves. Here is what some of the Retail Panel members had to say.

Paul Pulley, of a Sears auto department in Clarksville, TN, and Jim Loyd, Midway Auto Supply, Dallas, both said sales of these parts will be up sharply in the coming year. However, Norman Meinke, 2-M Auto Supply, Lowell, AR, said that as of now, he sees very few DIY sales. Frank Johnson, Lacey Automotive Parts, Soledad, CA, said he think he knows why. "Sales of these parts will pick up as soon as people learn more about the system. We need more instructions on these parts now." Manufacturers, take note.

MN, has distinguished itself by its efforts to broaden and deepen the DIY market via the use of how-to-do-it-materials. The chain has made a substantial investment in video discs and disc players for each store. Each disc has segments for several types of repairs such as installing brake pads, installing a sun roof, etc., etc.

At Champion Auto, Bud Rose, CEO, said the video disc program has been costly. But the results have been gratifying and the costs of video disc production have come down substantially. The company has its own subsidiary for producing video disc masters.

Champion has been commended for its commitment to "consumer education." But Rose said, "We prefer to talk about *communication* rather than education. Lots of people think 'education' is a dirty word. They won't admit that they need to be educated."

Champion's approach is admired by many chains. However, one executive said, "We believe in training our personnel—but trying to train customers is a big waste of time and money! Rather than spend money on educating customers, we put our efforts into attracting the customers who already have the know-how. In our case, it means being willing to stock many more SKUs than our competitors and having salesmen on the floor who can talk the customers' language."

The Parts Proliferation Question

Compared to the 1970s, retailers have to stock many more SKUs to provide coverage on replacement parts. This applies to "fast-turnover" items such as spark plugs and filters as well as bolt-on parts. More and more items are "application specific" or cover far fewer makes and model-years than before. This presents problems to chains which try to keep SKUs down to 8,500-9,000 numbers.

At B & B Auto Parts, Phillips (formerly of Schuck's and Northern Automotive) regards the inventory problem as a challenge and opportunity. "The parts business goes to those stores which have the parts in stock. The Pep Boys stores are busy because they carry about 10,000 SKUs. Our stores (six in the Seattle area) carry 17,500 SKUs!"

In general, auto chain stores accept the necessity of adding SKUs to hold hard parts customers. In some cases, they are carrying greater inventories at their central warehouses. They are also pressing their vendors for faster re-supply.

Where the chains divide is on the question of using feeders. Some big chains are adamant about being direct buyers of everything they sell; others, especially the smaller chains, take a more pragmatic position.

"There is an important role for feeders on slower moving, big ticket items. Take CV half-shafts, for example. There is increasing demand for complete half-shafts because they are actually easier to install than the separate CV-joint boots and pieces. But, we can't afford to inventory such a large, high-priced item. The solution is to take delivery from a feeder," Phillips of B & B said.

Parts proliferation is acknowledged to be a particularly severe problem on import car and light truck applications. Dealing with parts-for-imports is a big question—or several big questions—in itself.

The Parts-For-Import Questions

That retailers have to stock parts for imports is no longer an issue. However, it is worth noting that some parts manufacturers believe that volume retailers have been unduly slow in responding to the demand.

"They have been late—as usual. It took chain stores years to face the fact that the domestic car population is growing very slowly and that all the growth is in import applications. One of the things which has discouraged the chains from competing for import car parts business is that many more SKUs are required than for GM, Ford, and Chrysler products. There are many makes, many models and frequent changes from one model year to the next," one manufacturer said.

Another problem for chain stores is that import vehicle registrations can vary greatly by trading area. So, for example, Chief Auto has much more demand for import parts in its California stores than in its Texas/Southwest stores. In addition, there are variations within regions; there is more demand for import car parts in cosmopolitan Dallas and Houston than in not-so-cosmopolitan Sweetwater, TX.

Problems like these mean that big chains have to work hard to plan appropriate inventory for each store. This, in turn, causes them to prefer to deal with

DIY TRENDS FOR SUSPENSION SYSTEM PARTS

Do retailers believe that the DIY trend in suspension system part installation has peaked?

Source: AWI Retail Panel

RETAILERS & SUSPENSION SYSTEM PARTS

We asked our Retail Panel about the sales of ride control parts. For the most part, the panel retailers were optimistic about DIY sales of suspension parts. Most said sales of these parts will go up or at stay the same. Here is what some of the Retail Panel members had to say.

Avis C. Cox, Cox Auto Supply, Yankton, SD, said he expects more DIY sales of these parts. So does Noyes Turner, Darling's Auto Parts, Brunswick, MA. Frank Johnson, Lacey Automotive Parts Co., Soledad, CA, said, "There will be more sales of shocks, springs, etc. because people are paying more attention to their suspension." And Gene Guttormsen, Gunnar's Auto, Longview, WA, noted, "With the increase of CV-joints, rack and pinion steering, added tool sales will be mandated. Counter knowledge will be a must."

BRAKE PARTS DIY TRENDS

Do retailers believe that the DIY trend in brake part installation has peaked?

Source: AM's Retail Panel

RETAILERS & BRAKES

We asked our Retail Panel members to give us their insight on the sales of brake parts. For the most part, the pannel retailers were optomistic about brakes. Most said their sales of brake parts would go up, or at least stay the same. Here is what some of them had to say.

Richard Dudley, Northstar Auto Supply Inc., Dansville, NY, said he will be selling more rotors and more drums. Gene Gullormsen, of Gunnars Auto, Longview, WA, said he believes he will see additional sales for brake replacement kits. Elmo Jones, a Western Auto associate in Carmi, IL, said he will sell more high-ticket semi-metallic brakes in the coming year. Noyes Turner, manager of Darlings Auto Parts, Brunswick, MA, said DIYers in his area will do more brake repair and parts replacement themselves. However, Norman Meinke, of 2-M Auto Supply Inc., Lowell AR, said his shop is selling more brake parts to dealers and fewer to DIYers.

suppliers who can provide maximum assistance in assembling and analyzing registration data, and recommending inventory levels for each location.

Volume retailers also evaluate suppliers of import parts on such basic criteria as availability, fill rates, prices, merchandising assistance, return privileges and credit as well as cataloging.

Where To Source Import Parts

One of the big questions is the degree to which volume retailers will source from importer-distributors versus their domestic sources. Retailers are frank in saying that, other things being equal, they prefer to buy parts for imports from the same vendors who supply similar replacement parts for domestics because there are advantages in dealing with a smaller number of vendors.

But during the 1970s, and well into the 1980s, deficiencies in the import parts program of domestic suppliers provided opportunities for importer-distributors who specialize in chain store business. These include firms like IAPCO, MPA and the Import Car World division of Beck/Arnley-Worldparts.

In addition, it took the domestic parts manufacturers quite a while to develop adequate coverage of the applications and build inventories to the point they could provide adequate fill rates.

The situation changed in the late 1980s when the dollar plummeted in relation to Japanese and European currency. This raised the costs of the importer-distributors and gave domestic parts makers the incentive to produce more parts-for-imports in their domestic plants. At the same time, they have also gained sophistication in finding and negotiating with foreign sources. For example, they are now more likely to be dealing with the actual Japanese or Korean makers rather than with the big trading companies.

Import parts manufacturers (and remanufacturers) are in agreement that volume retailers need to do more to build their positions in the import car parts market. In particular, these makers feel that in order for a retailer to make it selling hard parts for imports the retailer needs to do the following:

- Make a commitment.

Accept the fact that you need to stock parts in adequate breadth and depth to get the business. It also means accepting the fact that initially, a least, sales/inventory ratios may be lower than desired. It takes some investment to gain recognition as a source for import parts. Parts manufacturers have had to make that same kind of investment for years.

- Take advantage of special order programs.

No retailer can stock every part for every make, model and year of foreign make vehicle. What to do? Deal with manufacturers and re-manufacturers who can provide availability on an overnight basis. Gary Esterling, marketing director of Champion Parts, Oak Brook, IL, said, "On a carburetor which may retail for between $75 and $200, take a deposit of $10-15 and arrange for direct shipment to the store. You hold the customer without tying up a lot of money in slower moving, big ticket items."

The Question Of Private Labels

Finally, for retailers there is the question of whether or not to carry a private label hard parts line.

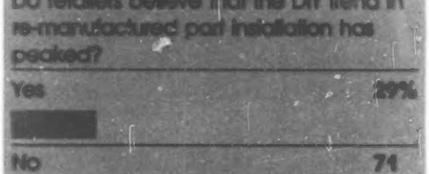
In the old days, many parts manufacturers were reluctant to sell their branded merchandise to direct-buying retailers for fear of upsetting their traditional distributors and jobbers. Retail chains had to fight to get branded products. Some of the biggest chains elected to emphasize sales of their own private labels and promoted them via heavy advertising.

What do we see today? WD "programs" promoting their own private brands, allegedly because of the need to get protection from chain store competition on branded parts. And the trend among chain stores toward branded merchandise appears to be accelerating. Sears and Western Auto, heretofore big marketers of private label parts, accessories, batteries, tires, etc., are, increasingly, promoting manufacturers' brands.

If nothing else, the business of selling hard parts has changed, and is continuing to change. The key for retailer who want to sell these parts is to be flexible. ■

DIY TRENDS FOR RE-MANUFACTURED PARTS

Do retailers believe that the DIY trend in re-manufactured part installation has peaked?



Source: AM's Retail Panel

RETAILERS & REMANUFACTURED PARTS

We asked our Retail Panel members about the sales of all types of re-manufactured parts. For the most part, the panel retailers were optimistic about these hard selling hard parts. Here is what some of the Retail Panel members had to say.

Noyes Turner, Darling's Auto Parts, Brunswick, MA, said DIY sales for all types of re-manufactured parts are on the rise. But for R. Caccauale, Skyway Auto Parts, Summit, NJ, some remanufactured parts are moving fast while others are stagnant. Elmo Jones, a Western Auto associate in Carmi, IL, said, "These parts will remain strong. Most of the re-manufactured parts are bolt-ons, and these are items your average DIYer can still do." And Frank Johnson, Lacey Automotive Parts, Soledad, CA, said, "There will be more use of re-manufactured parts because the quality of these parts keeps getting better." Jim Loyd, Midway Auto, Dallas, spoke for many retailers when he said, "The price of new parts will really have to come down" before they can compete with re-manufactured parts prices in his store.

HOW MUCH MONEY STORE MANAGERS MAKE

Aftermarket retailers pay their managers differently than other retailers, both in terms of how and why.

by **Christine C. Donovan & Cos Ferrara,** TRADE (Touche Ross Retail, Apparel, Manufacturing & Distribution Enterprises)

The overwhelming response we received to the Touche Ross/*Automotive Marketing* Retail Compensation National Store survey showed that aftermarket executives are very interested in finding out what others in the industry do about store-level compensation. Of the companies receiving questionnaires, we had a 15% response, indicating a thirst for compensation data.

And the figures suggest why. We found a wide divergence, not only in the dollar figures, but also in compensation packages and criteria used to measure responses.

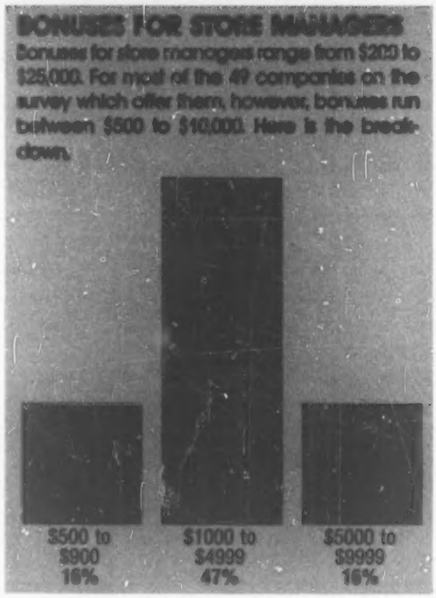
Here are the survey results, and some insights into what they mean. We'll also compare the results of this survey to a similar one conducted among specialty store retailers, such as apparel stores, outside the aftermarket industry. We think you will find the contrasts between the two rather striking.

The Compensation Package

Almost all, some 96%, of the responding companies pay their store managers a salary, and slightly more than half, 51%, pay them a bonus. Some 31% give store managers a commission.

Bonuses are awarded to assistant managers in 30% of the companies, and commission is paid to assistant managers in 15% of the companies.

Most store managers are paid on an annual basis, with salaries reviewed every 12 months. The same is true for assistant managers, though 38% of them are paid on an hourly basis. There seems to be no difference in the final salary figures, however, as there are about as many hourly and annual people at each pay level.


BONUSES FOR STORE MANAGERS
Bonuses for store managers range from $200 to $25,000. For most of the 49 companies on the survey which offer them, however, bonuses run between $500 to $10,000. Here is the breakdown.
$500 to $900 16%
$1000 to $4999 47%
$5000 to $9999 16%

Source: Touche Ross

About 7% of store managers receive overtime pay, while 23% of the assistant managers receive extra compensation for overtime.

As for perquisites, store managers in almost all responding companies receive store discounts. Among companies giving perks, 19% of the store managers receive automobiles, and 18% receive auto allowances. About 9% of the respondents reimburse their store managers for tuition costs.

The same kind of perks are offered assistant managers, but by far fewer companies. Though 72% offer assistant managers store discounts, only 4% offer automobiles, and only 6% offer auto allowances. Almost 12% offer tuition reimbursement.

Since tuition reimbursement is a common perk in retailing, we wonder why so few companies in our survey cited this category on their response. Do they not offer it, or are their people just not using it? In either case, what does that suggest about the kind of people running these chains of stores?

Average Annual Salaries

Actual annual salaries for store managers range from $9,500 to $80,000. There are as many companies paying store managers more than $50,000 as there are companies paying under $15,000. If we look at where the bulk of the companies are, however, we find 32% paying store managers between $20,000 and $24,999 a year; 22% paying between $25,000 and $29,999; and 21% paying between $15,000 and $19,999.

The picture for assistant managers shows the greatest number of companies, 36%, paying between $15,000 and $19,999. Some 23% pay between $20,000 and $24,999, and 17% between $10,000 and $14,999. And, 10% pay assistant managers more than $30,000 a year.

Base salaries for store managers are standardized throughout the organization in only about one-third of the companies.

In those companies where base salary is not standardized, sales volume (41%) and length of employment (41%) are the primary elements on which salaries are based. Location is a criterion for about 21% of the responding companies.

For assistant managers, base salaries are standardized in about 27% of the companies. Length of employment is the basis for salary in 36% of the companies in which pay is not standardized. Sales volume is used as a basis for salary by 29% of the companies and store location by 15%.

Merit Increases

A wide variety of performance criteria is used in considering merit increases to base pay salary. Sales volume is used in this decision by 79% of the companies in the survey. More than 58% use gross margin as a determining factor. Half the respondents use years of service and performance, 38% cite controllable expenses, and 32% look to inventory turnover when considering merit increases. Shortage/shrinkage is considered by 28% of the companies.

Interestingly, recruitment is considered as a merit factor by only one company in the survey. At a time when labor is a critical problem in the industry, we wonder why managers and assistant managers are

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not given more incentive to recruit staff.

When considering merit increases for assistant managers, companies use the same criteria they use for managers, except that they tie assistant managers *less* to gross margin, inventory turnover, shrink, and controllable expenses. The performance management review (57%) and years of service (41%) are the second and third yardsticks, behind sales volume, in considering merit increases for assistant managers.

Bonuses

Bonuses for store managers range from $200 to $25,000. For most of the 49 companies offering them, however, bonuses run between $500 and $10,000. See the chart for a breakdown.

For assistant managers, bonuses range from $45 to $6,000. Among the 36 companies (almost half the survey population) offering bonuses to assistant managers, 37% give bonuses in the $1,000 to $4,999 range. Another 23% give bonuses in the $500 to $999 range. A full 22% give bonuses between $45 and $499.

Bonuses are awarded every 12 months at 54% of the companies, and every six months at 18%. Most of the responding companies have been offering bonuses to managers and assistant managers for five years or more.

To become eligible for a bonus, managers and assistant managers in about half the companies must have a certain number of years of service with the company, and in many cases—41% for managers and 37% for assistant managers—a minimum base salary is a bonus requirement.

What are the bonuses based on? For managers, the number one criterion is net sales, 42%; followed by profit margin, 38%; management decisions, 33%; and gross margin, 31%.

For assistant managers, bonuses are based on management decisions, 43%; net sales, 38%; profit margin, 25%; and gross margin, 20%.

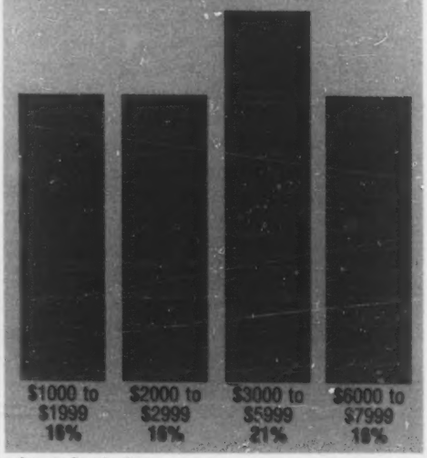
Store managers in 26% of the responding companies receive commission. Amounts of commission range from under $500 to over $800. Some 16% of the responding companies report paying commission to assistant managers. The charts offer breakdowns on these numbers.

Years of Service

Store managers in the responding companies have spent, on average, from three years to 40 years with the company. But except for that one longevity record, most store managers have between three and 15 years of service. More than 34% have been with their companies between six and ten years; 22% have fewer than six years of service; and 19% have between

COMMISSIONS FOR STORE MANAGERS

Store managers in 26% of the companies on the survey receive commissions. Amounts of commission range from under $500 to over $800. Here is the breakdown.



Source: Touche Ross

COMPENSATION AVERAGES & YEARS OF SERVICE

Managers of aftermarket stores, on the average, have between three and 15 years on the job. Most assistant managers, on the other hand, have fewer than six years on the job. Here is a look at years on the job, salary, bonuses, and commissions.

	Store Managers		Assistant Managers	
	Auto Stores	Other Specialty Stores	Auto Stores	Other Specialty Stores
Avg. Length Of Service	11.1 Yrs.	4.9 Yrs.	5.1 Yrs.	3.0 Yrs.
Avg. Annual Salary	$25,611	$30,290	$19,323	$20,909
Avg. Annual Bonus	$ 3,127	$ 3,786	$ 1,192	$ 1,214
Avg. Annual Commission	$ 5,794	NA	$ 3,360	$ 6,411

Source: Touche Ross

WHAT COMPANIES GIVE MANAGERS & ASSISTANT MANAGERS

Automotive aftermarket store managers get commission from 26% of the companies responding to the survey. Assistant managers don't do as well. The percentages in the breakdown below represent the percent of companies responding to the survey who give these perks to their managers and assistant managers.

	Store Managers		Assistant Managers	
	Auto Stores	Other Specialty Stores	Auto Stores	Other Specialty Stores
Commission	26%	NA	16%	87%
Bonuses	71%	NA	16%	87%
Cars	12%	3%	72%	84%
Car Allowance	11%	12%	6%	6%
Tuition Reimbursement	9%	38%	8%	36%

Source: Touche Ross

PERFORMANCE CRITERIA USED IN CONSIDERING MERIT INCREASES

Different types of stores use different performance criteria to award merit increases. While sales volume is used by 76% of auto stores when considering such increases for store managers, it is used by 90% of other types of specialty stores.

	Store Managers		Assistant Managers	
	Auto Stores	Other Specialty Stores	Auto Stores	Other Specialty Stores
Sales Volume	76%	90%	59%	59%
Gross Margin	56%	30%	37%	15%
Inventory Turnover	31%	33%	20%	21%
Shortage/Shrinkage	27%	70%	9%	39%
Years Of Service	27%	40%	41%	30%
Controlled Expenses	37%	64%	28%	30%
Performance Review	48%	85%	57%	76%
Payroll	13%	66%	6%	31%
Recruitment	1%	31%	NA	13%
Merchandising	27%	54%	24%	43%

Source: Touche Ross

11 and 15 years of service. More than 72% of the store managers have at least five years of service with their current company. By contrast, 70% of assistant managers have fewer than six years of service with the company. Only 8% of assistant managers have been with their companies more than ten years.

To gain some insight into the make-up of our survey population, we asked questions about gross margin and shortage figures in the stores. As with salaries, we find considerable divergence in these numbers.

For example, gross margin percentages range from 5% to 80%. But the average gross margin is 36.7%, which is closest to the 37.4% for all specialty stores, as uncovered in another Touche Ross retail industry survey. The aftermarket gross margin breakdown is given in the chart.

In terms of shortage/shrinkage, 43% of responding companies report shortages of less than 1% of sales. Another 43% report shortage between 1-2%, while 13% have shortage between 2-3%.

Striking Contrasts

The figures suggest that the auto aftermarket industry is far from unified in its approach to compensation, and in the levels of compensation paid to its managers and assistant managers. We might even infer that in some companies, the method of assessing and rewarding performance is far less from systematic.

As competition weeds out fringe operators, and as technology plays a larger role in the industry's stores, retailers will have to take a sharp look at who they want running their stores and how they can get the most productivity from those individuals. That means developing the right mix of salary, bonus, and commission to ensure quality management, long-term loyalty, and high performance in the stores.

When we compare the results of this survey of compensation in the auto aftermarket to those of other specialty retailers (see *Automotive Marketing's* March 1989 story, "Linking Pay & Performance"), we see some interesting contrasts.

For example, commission is offered to store managers by 31% of the companies in the aftermarket industry, as opposed to only 9% overall. Conversely, bonuses are paid by 75% of all specialty retailers, but by only 51% of auto parts retailers. More aftermarket companies, 41%, give bonuses to assistant managers than do other specialty retailers, 25%.

In terms of average annual salary, there is little difference at the assistant managers' level, but there is a significant difference at the manager level. Aftermarket managers make almost $5,000 less per year than do their counterparts in other specialty stores, $25,611 vs. $30,290.

The difference in average annual salary seems even greater when we look at the difference in average length of time in the position: 11.1 years for aftermarket managers as opposed to 4.9 years for other specialty store managers.

Significant differences are also evident in the performance criteria used to grant merit increases. Gross margin is the only factor considered by more aftermarket retailers than by other specialty retailers. Many more retailers in the other segments consider matters such as shortage, controllable expenses, management review, recruitment, and merchandising than do the aftermarket retailers.

These differences do not mandate any changes within the aftermarket companies, but perhaps they do indicate the need for a second, and perhaps closer, look at compensation in terms of both *what* and *how*. ■

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